

LEMAITRE VASCULAR INC
Form 10-Q
August 06, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended June 30, 2018

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from _____ to _____.

Commission File Number 001-33092

LEMAITRE VASCULAR, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-2825458
(I.R.S. Employer
Identification No.)

63 Second Avenue, Burlington, Massachusetts
(Address of principal executive offices)

01803
(Zip Code)

(781) 221-2266

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth Company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The registrant had 19,461,986 shares of common stock, \$.01 par value per share, outstanding as of July 31, 2018.

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LEMAITRE VASCULAR

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Table of Contents**Part I. Financial Information****Item 1. Financial Statements****LeMaitre Vascular, Inc.****Consolidated Balance Sheets**

	(unaudited) June 30, 2018	December 31, 2017
	(in thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,638	\$ 19,096
Short-term marketable securities	33,298	22,564
Accounts receivable, net of allowances of \$494 at June 30, 2018, and \$349 at December 31, 2017	15,230	15,000
Inventory and other deferred costs	21,669	21,046
Prepaid expenses and other current assets	2,529	2,605
Total current assets	92,364	80,311
Property and equipment, net	12,235	12,378
Goodwill	23,602	23,844
Other intangibles, net	7,358	8,234
Deferred tax assets	1,347	1,378
Other assets	194	178
Total assets	\$ 137,100	\$ 126,323
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 1,657	\$ 1,543
Accrued expenses	11,286	9,770
Acquisition-related obligations	172	1,876
Total current liabilities	13,115	13,189
Deferred tax liabilities	2,175	2,176
Other long-term liabilities	1,066	1,188
Total liabilities	16,356	16,553
Stockholders equity:		
Preferred stock, \$0.01 par value; authorized 3,000,000 shares; none outstanding		
Common stock, \$0.01 par value; authorized 37,000,000 shares; issued 20,836,847 shares at June 30, 2018, and 20,745,041 shares at December 31, 2017	208	207

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Additional paid-in capital	95,122	93,127
Retained earnings	38,234	28,333
Accumulated other comprehensive loss	(3,207)	(2,289)
Treasury stock, at cost; 1,480,250 shares at June 30, 2018 and 1,480,101 shares at December 31, 2017	(9,613)	(9,608)
Total stockholders' equity	120,744	109,770
Total liabilities and stockholders' equity	\$ 137,100	\$ 126,323

See accompanying notes to consolidated financial statements.

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LeMaitre Vascular, Inc.

Consolidated Statements of Operations

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(in thousands, except per share data)			
Net sales	\$ 27,020	\$ 25,753	\$ 53,014	\$ 49,892
Cost of sales	8,028	8,238	15,548	15,023
Gross profit	18,992	17,515	37,466	34,869
Sales and marketing	6,792	6,599	13,882	13,553
General and administrative	4,547	3,747	9,244	8,295
Research and development	1,988	1,634	3,813	3,292
Gain on divestiture	(5,876)		(5,876)	
Total operating expenses	7,451	11,980	21,063	25,140
Income from operations	11,541	5,535	16,403	9,729
Other income (expense):				
Interest income	165	32	260	52
Foreign currency gain (loss)	(159)	(102)	(200)	(76)
Income before income taxes	11,547	5,465	16,463	9,705
Provision for income taxes	2,796	833	3,859	1,854
Net income	\$ 8,751	\$ 4,632	\$ 12,604	\$ 7,851
Earnings per share of common stock:				
Basic	\$ 0.45	\$ 0.25	\$ 0.65	\$ 0.42
Diluted	\$ 0.43	\$ 0.23	\$ 0.62	\$ 0.40
Weighted-average shares outstanding:				
Basic	19,320	18,816	19,301	18,724
Diluted	20,260	19,975	20,243	19,855
Cash dividends declared per common share	\$ 0.070	\$ 0.055	\$ 0.140	\$ 0.110

See accompanying notes to consolidated financial statements.

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LeMaitre Vascular, Inc.

Consolidated Statements of Comprehensive Income

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(in thousands)		(in thousands)	
Net income	\$ 8,751	\$ 4,632	\$ 12,604	\$ 7,851
Other comprehensive income (loss):				
Foreign currency translation adjustment, net	(1,223)	1,019	(895)	1,639
Unrealized gain (loss) on short-term marketable securities	22		(23)	
Total other comprehensive income	(1,201)	1,019	(918)	1,639
Comprehensive income	\$ 7,550	\$ 5,651	\$ 11,686	\$ 9,490

See accompanying notes to consolidated financial statements.

Table of Contents**LeMaitre Vascular, Inc.****Consolidated Statements of Cash Flows****(unaudited)**

	For the six months ended June 30,	
	2018	2017
	(in thousands)	
Operating activities		
Net income	\$ 12,604	\$ 7,851
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,102	1,962
Stock-based compensation	1,257	959
Fair value adjustment to contingent consideration obligations	42	
Provision for doubtful accounts	146	104
Provision for inventory write-downs	170	184
Gain on divestitures	(5,876)	
Foreign currency transaction loss	96	(20)
Changes in operating assets and liabilities:		
Accounts receivable	(552)	(1,067)
Inventory and other deferred costs	(1,306)	(767)
Prepaid expenses and other assets	26	(756)
Accounts payable and other liabilities	(82)	(550)
Net cash provided by operating activities	8,627	7,900
Investing activities		
Purchases of property and equipment and other assets	(1,230)	(2,444)
Purchases of short-term marketable securities	(10,757)	
Proceeds from divestiture	7,400	
Net cash used in investing activities	(4,587)	(2,444)
Financing activities		
Payments of deferred acquisition consideration	(1,142)	(388)
Proceeds from issuance of common stock	738	2,301
Purchase of treasury stock	(5)	
Common stock cash dividend paid	(2,704)	(2,065)
Net cash provided by financing activities	(3,113)	(152)
Effect of exchange rate changes on cash and cash equivalents	(385)	528
Net increase in cash and cash equivalents	542	5,832
Cash and cash equivalents at beginning of period	19,096	24,288
Cash and cash equivalents at end of period	\$ 19,638	\$ 30,120

Supplemental disclosures of cash flow information (see Note 12)

See accompanying notes to consolidated financial statements.

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LeMaitre Vascular, Inc.

Notes to Consolidated Financial Statements

June 30, 2018

(unaudited)

1. Organization and Basis for Presentation

Description of Business

Unless the context requires otherwise, references to LeMaitre Vascular, we, our, and us refer to LeMaitre Vascular, Inc. and our subsidiaries. We develop, manufacture, and market medical devices and implants used primarily in the field of vascular surgery. We also derive revenues from the processing and cryopreservation of human tissues for implantation into patients. We operate in a single segment in which our principal product lines include the following: anastomotic clips, angioscopes, balloon catheters, biologic vascular grafts, biologic vascular patches, carotid shunts, powered phlebectomy devices, radiopaque marking tape, remote endarterectomy devices, synthetic vascular grafts, and valvulotomes. Our offices are located in Burlington, Massachusetts; Fox River Grove, Illinois; Vaughan, Canada; Sulzbach, Germany; Milan, Italy; Madrid, Spain; North Melbourne, Australia; Tokyo, Japan; and Shanghai, China.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal, recurring adjustments considered necessary for a fair presentation of the results of these interim periods have been included. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Our estimates and assumptions, including those related to bad debts, inventories, intangible assets, sales returns and discounts, share-based compensation, and income taxes are updated as appropriate. The results for the six months ended June 30, 2018 are not necessarily indicative of results to be expected for the entire year. The information contained in these interim financial statements should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2017, including the notes thereto, included in our Form 10-K filed with the Securities and Exchange Commission (SEC) on March 9, 2018.

Consolidation

Our consolidated financial statements include the accounts of LeMaitre Vascular and the accounts of our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition

Our revenue is derived primarily from the sale of disposable or implantable devices used during vascular surgery. We sell primarily directly to hospitals, and to a lesser extent to distributors. We also occasionally enter into consigned inventory arrangements with either hospitals or distributors on a limited basis. Following our acquisition of the

RestoreFlow allograft business, we also derive revenues from human tissue cryopreservation services. These service revenues are recognized when services have been provided and the tissue has been shipped to the customer, provided all other revenue recognition criteria discussed below have been met.

On January 1, 2018 we adopted the provisions of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. We used the modified retrospective method of adoption under which the comparative information was not restated and will continue to be reported under the standard in effect for those periods. The adoption of this standard was not material to our financial statements and there was no cumulative effect adjustment to the opening balance of retained earnings required. The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard explains that to achieve the core principle, an entity should take the following actions:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price

Step 5: Recognize revenue when or as the entity satisfies a performance obligation

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Revenue is recognized when or as a company satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service).

We generally reference customer purchase orders to determine the existence of a contract. Orders that are not accompanied by a purchase order are confirmed with the customer either in writing or verbally. The purchase orders or similar correspondence, once accepted, identify the performance obligations as well as the transaction price, and otherwise outline the rights and obligations of each party. We allocate the transaction price of each contract among the performance obligations in acc